

# Top 10 Investor Traps of 2007

**Affinity Fraud.** Con artists are increasingly targeting religious, ethnic, cultural and professional groups. Con artists may gain trust by joining the group before selling fraudulent securities. Or they may recruit respected members of the group to promote the scheme by convincing them that a fraudulent investment is legitimate. In many cases, even these leaders become victims.

*Investigate before you invest – no matter who is selling.*

**Foreign Exchange Trading.** Foreign exchange (forex) trading can be legitimate for governments and businesses concerned about fluctuations in international currencies, and it can even be appropriate for some individual investors. However, the average investor should be wary when it comes to these complex markets.

*If you don't understand an investment, don't invest.*

**Internet Fraud.** Scamsters continue to take advantage of technology to lure investors into “pump-and-dump” stock schemes. Be wary of investments being pitched through unsolicited e-mails, instant messages and phony Web sites.

*The Internet can be a con artist's dream – easy access to you and your money, with no “return address” if the deal goes sour.*

**Investment Seminars.** Promoters of unsuitable investments are increasingly seeking potential investors, particularly seniors, by offering seminars. Often they promise a free meal along with “higher returns and little or no risk.” Unfortunately, in many of the cases, it's just the opposite: high risk and no returns, just disastrous losses.

*There's no such thing as a free lunch.*

**Oil and Gas Scams.** Rising oil and natural gas prices have made a variety of traditional and alternative energy projects attractive to investors. Most of these investments are highly risky and not appropriate for smaller investors.

*Con artists tend to follow the headlines.*

**Prime Bank Schemes.** Often promising high-yield, tax-free returns, promoters of these schemes offer to let the “little guy” in on what they claim are financial instruments from elite overseas banks usually offered only to the world's wealthiest investors. Prime banks do not exist and the scam artists have no intention of creating a profit for anyone but themselves.

*Often the most sophisticated sounding investments are just false promises in fancy garb.*

**Private Securities Offerings.** Con artists are turning increasingly to private securities offerings under Rule 506 Regulation D of the Securities Act of 1933 to attract investors without having to go through the full registration process. Although sometimes legitimate, these offerings are often associated with fraud.

*Especially with lightly regulated investment offerings, it pays to consult a trusted financial adviser.*

**Real Estate Investment Contracts.** Despite the recent decline in property values, investments in real estate long have been viewed as a “sure thing” with little downside risk and the potential for substantial returns. Some real estate investments are securities subject to full regulation under state and federal securities laws, including registration requirements and antifraud rules.

*Even if an investment involves real estate, it still may be a security, so check with your state securities regulator.*

**Unlicensed Individuals and Unregistered Products.** Anyone selling securities or providing investment advice usually must be appropriately licensed. It should raise a red flag for investors if someone is engaging in these activities without a valid license.

*Carefully check out anyone offering to help you buy or sell securities or providing investment advice.*

**Unsuitable Sales.** What might be suitable for one investor might not be right for another. Securities professionals must know their customers' financial situation and refrain from recommending investments they have reason to believe are unsuitable.

*Make sure your investments match your need for access to money, your age and your risk tolerance.*

Contact the Office of Financial Institutions' Securities Division at 800-223-2579  
with any questions about an investment product, broker or adviser before investing.

